

Artificial Intelligence for Day Traders

Tony Harris and Eugene Woo

Freedom '98 Capital Management Group
Toronto, Ontario, Canada
Email: caharris@home.com, ewoo@home.com

Abstract

Trading is easy! Yep!

Buy the stuff that's going up and sell the stuff that's going down.

Trading is hard! Yep!

How do we know that the stock we buy is going to go up? How do we know that the stock we sell is going to go down? To further complicate things.... How much should we buy? When should we sell if the stock we bought is a dog? When should we sell if the stock we bought is rocketing up (Hey, we know that we should sell sometime. It can't go up forever).

Take a tip? Trust a rumor? The last hot tip that I got, only got me!!

In the trading game there are a few ways to win but lots of ways to lose. A bit like life, isn't it?

The truth. Trading is simple but not easy! The pros know this. They know it's a game of probabilities where you plant yourself firmly on the side of a "more than likely" chance that you will be right. This defines your trading system. Then the rest is all money management. Cut your losses short. Let your profits run. Don't load up on the "for-sure" ones. Take partial profits. Etc.

Do pros ever lose? Does the "average" person stand a chance of winning?

The answer! Many pros lose and YES the "average" person does stand a chance. The answer to not losing stands somewhere in a hybrid of discipline and emotional intelligence. Maybe it's having the discipline to have emotional intelligence or having the emotional intelligence to have discipline. Well, whatever it is, we as humans suffer from four emotions that are dangerous to staking our hard-earned money on anything, e.g., buying a house, renewing our mortgage, investing, trading. These emotions are GREED, HOPE, DENIAL and FEAR! At one time or another these four "gotchas" are alive and well to get us, and many of us succumb to temptation.

The bottom line:

We are all an undisciplined lot with emotions that get in the way of rational trading so we need Artificial Intelligence to help out and keep us on track.

This paper will discuss additional details about trading and investing, as well as how the authors have used Artificial Intelligence in the form of Expert Systems and Fuzzy Logic to gain an edge in the stock markets.

What is Day Trading?

Day Trading is the activity of buying and selling securities where, at the end of each day, the investor holds no inventory in the securities traded. In the industry jargon, the trader is *flat* at the end of the day.

For the purpose of this paper we will focus on stocks trading on the NASDAQ Stock Market.

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